

FISCAL IMPACT STATEMENT ON BILL NO. **S.80**

(Doc. No. 3045sd05.doc)

TO:	The Honorable Glenn McConnell, Chairman, Senate Judiciary Committee		
FROM:	Office of State Budget, Budget and Control Board		
ANALYSTS:	Kate Billing, Allan Kincaid, R.J. Stein, Kenneth Brown		
DATE:	February 15, 2005	SBD:	2005026

AUTHOR:	Senator McConnell	PRIMARY CODE CITE:	2-13-240
SUBJECT:	State Government Restructuring		

ESTIMATED FISCAL IMPACT ON GENERAL FUND EXPENDITURES:
See Below

ESTIMATED FISCAL IMPACT ON FEDERAL & OTHER FUND EXPENDITURES:
See Below

BILL SUMMARY:

Senate Bill 80 would restructure much of South Carolina State Government. Among other things, the Bill would create a Department of Administration, a Department of Behavioral Health Services, a Department of Health Oversight and Finance, and a Department of Natural Resources. Enactment would also result in the creation of an Office of Inspector General.

EXPLANATION OF IMPACT:

Department of Administration

Part II Section 1 identifies the agencies and entities that would become a part of a new Department of Administration and designates that all employees, appropriations, assets and liabilities of these offices shall be transferred and become a part of the new Department of Administration. Since the section does not introduce any new initiatives, it is estimated there would be little or no impact on the General Fund of the State or on Federal and/or Other Funds. Any potential one-time costs associated with consolidation or systems integration are not currently identifiable. In addition, such consolidation and integration may result in some long-term administrative savings.

Office of State Inspector General - Department of Administration

In order to provide an estimate of the cost involved with an Office of Inspector General, the Office of State Budget (OSB) reviewed those states having such an office including Georgia, Louisiana, and Ohio. In addition, OSB took into consideration the funding and staffing level of the Legislative Audit Council, which may be considered the most comparable existing state entity. The three states reviewed had budgets ranging from between \$855,000 and \$1.1 million. Staffing levels were as low as five and as high as fourteen. The Legislative Audit Council currently has a budget of \$921,500 and fifteen filled positions. The Governor's version of the Appropriation Bill for FY 2005-06 reflects an appropriation of \$400,000 with six new positions for an Inspector General's Office. Therefore, although the funding and staffing level for the Office of Inspector General is at the General Assembly's discretion, funding for such an office can be estimated at between \$400,000 and \$1.1 million. Staffing could be estimated at between five and sixteen employees. However, it should be noted none of the three states reviewed had responsibility for all state schools including K-12, Colleges and Universities

State Budget and Control Board

Section 1-11-22 (C) of the Bill allows the Board to expend revenues generated by the programs for which the Board maintains any responsibility related to the programs administered by the Department of Administration. Therefore, there would be no fiscal impact on the Board.

State Budget and Control Board – Statehouse, Legislative, and Judicial Facilities Operations Division

Part III, Subpart I, Section 1 of the Bill creates this new Division within the Board; however, this should not result in an impact assuming the Board retains sufficient resources (funding and staff) currently within the Division of General Services that would be necessary to carry out the new division's responsibilities.

State Budget and Control Board - Chief Information Officer

A review of this Bill indicates there will be a cost to the General Fund of the State of approximately \$2.0 million with twenty positions. The actual impact on General Funds would depend on any potential adjustments to the existing fee structure and/or changes in the level of reimbursable services provided that may be used toward the funding of this initiative.

Information Technology Procurement and Telecommunications – Statewide

Section 1-11-1315 of the Bill exempts higher education, Department of Transportation, Judicial and Legislative bodies from the definition of a governmental body for the purpose of procurement of information technology and telecommunications. Currently there are processes in place for the purchase of goods and services that are designed to provide economy and to maximize to the fullest extent practicable the purchasing value and volume of the state. As a result of these exemptions, there is a potential that the cost of goods and services for the remaining agencies, school districts and local governments may increase due to the lower volume of purchases of items on state term contracts. It is estimated by State Budget and Control Board (Board) staff that for each ten percent reduction in volume there is a one percent reduction in the discount percentage the state receives on term contracts. Each year state agencies spend approximately \$200 million for information technology. Of this amount Judicial, Department of Transportation, and institutions of higher education spend \$53 million. With this reduction in volume of purchasing, it is estimated that the non-exempt agencies may incur an additional 2% to 3% increase in costs of approximately \$3 million in state, Federal and other funds.

Further, as a result of the exempt agencies the non-exempt agencies may incur additional costs of approximately \$1.4 million in State, Federal and other funds for various local and long distance telecommunications services and a 10% - 20% increase in costs of approximately \$5.4 million for network as estimated by the primary network carrier for the State. Total additional cost associated with these two services is estimated at \$6.8 million. This impact statement does not consider any cost or savings exempt agencies may realize or incur from not using state term contracts and telecommunications services.

Department of Health & Environmental Control (DHEC)

Enactment of this Bill would result in the responsibility for regulation of Day Care facilities being transferred from the Department of Social Services (DSS) to the Department of Health & Environmental Control. DHEC estimates the total direct and indirect cost associated with implementing this program at \$3,687,000. The program is currently administered at DSS from revenue derived from fines and fees, and General Fund appropriations of approximately \$55,000. Any potential impact on DHEC depends on the actual appropriations transferred from DSS, the extent to which DHEC may need to modify the program, and any changes in the fee structure and schedule. However, nothing contained in the Bill requires DHEC to modify the program as it is currently administered at DSS. There may also be some one-time cost associated with moving and systems integration.

Other State Agencies

Other State agencies indicated enactment would have little or no impact on expenditures. These agencies indicated there would be some minimal cost associated with name changes, but expected some long term savings in administration and other areas specific to their organization. These agencies include the following:

- Lieutenant Governor's Office
- Department of Health & Human Services
- Department of Disabilities & Special Needs
- Department of Alcohol & Other Drug Abuse Services
- Department of Mental Health
- Department of Social Services
- Department of Juvenile Justice
- Department of Natural Resources

Recapitulation

Based on the information above creation of a State Chief Information Officer and an Office of State Inspector General could result in a direct impact on the General Fund of the State of between **\$2,400,000 and \$3,100,000**. In addition, there are likely to be additional costs estimated at \$9.8 million in total funds associated with exempting certain entities from the information technology and telecommunications procurement processes and procedures. Some of these additional costs may be offset to the extent there are administrative, support, management, and/or efficiency savings associated with agency consolidation.

LOCAL GOVERNMENT IMPACT:

See Information Technology Procurement and Telecommunications – Statewide section above.

SPECIAL NOTES:

Some states have Inspector General Offices within specific functional groups (such as among health and social services agencies) including Kentucky and West Virginia. These states have a considerably larger Inspector General staff within these units. Kentucky has a staff of 296 employees with a budget of \$19 million within its Health and Social Services functional group. West Virginia has a staff of 100 with a budget of \$4.5 million within its Medicaid, TANF and Food Stamps program functional group

Approved by:



Don Addy
Assistant Director, Office of State Budget